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C O N F I D E N T I A L SECTION 01 OF 02 TASHKENT 001734

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TAGS: [ECON](#) [ICAC](#) [EINV](#) [ETRD](#) [ELAB](#) [ZK](#) [UZ](#)
SUBJECT: COTTON TRADE, PROFITS (AND REFORMS?)

REF: TASHKENT 1648

Classified By: CLASSIFIED BY ECON OFF B. OLSEN FOR REASONS 1.4 (B, D).

11. (C) Summary: The 2007 Third International Cotton and Textile Conference attracted over 250 companies, the majority Asian. Embassy staff attended. Uzbekistan expects to export over one million tons of ginned cotton in 2007 for approximately USD 1.55 billion. Over 70 percent of this year's buyers are from Asia, demonstrating an economic shift away from the traditional European buyers. Improved trade routes are a factor in this shift. The Government of Uzbekistan (GOU) continues its attempt to convert half of the cotton sector to value-added industries. It partly relies on foreign investment for this conversion, which trickles in slowly due to the poor investment climate. Cotton industry reforms would likely raise the standard of living of the docile, poorly-educated and poorly paid rural labor force. However, value-added industries, in the short term, would deprive the powerful elite of a source of hard currency. We do not foresee substantial cotton reforms occurring rapidly in Uzbekistan. End summary.

12. (U) The Third International Cotton and Textile Conference was held in Tashkent September 17-19. According to organizers, 450 representatives from 250 companies and 34 countries, mostly from Southeast Asia, took part in the event. The fair was organized by the Uzbek Ministry for Foreign Economic Relations, Investment and Trade (MFERIT), with support from the International Cotton Advisory Committee, British Cotton Outlook Ltd., and the Uzbek Cotton Association. In addition to the exhibition, participants visited cotton farms, gins and textile mills.

13. (U) Official speakers spun a positive story about the 2007 cotton season. The International Cotton Advisory Committee lauded Uzbekistan for its strong pricing policy. This year, Uzbekistan is selling cotton at a market rate, regardless of quantity purchased. The government reportedly priced cotton so as not to undercut the international price. The majority of Uzbek cotton is sold by three state-owned MFERIT companies (Note: There are a handful of foreign businesses with licenses to sell ginned cotton, including the Central Asia Seed Company (reftel). End note.) From 2006, raw cotton also has been traded on the Uzbek Commodity Exchange.

14. (U) Minister for Foreign Economic Relations Ganiev commented that recent infrastructure improvements and the establishment of trade routes eastward have reduced transportation time from 30-32 days to 24-26 days. Cotton is sent by rail to Alahsankou, Kazakhstan, then to northern

China and onward to Chinese ports, where it is shipped by boat to Bangladesh, South Korea, India, and Singapore. The improved trade routes have reduced the reliance on overland routes via Turkmenistan to Iran's Bander-Abbas port.

¶5. (U) The majority of Uzbekistan's raw cotton, over 70 percent, is now purchased by Asian buyers. This is an important shift as Western demand for ginned cotton is rapidly decreasing. At the Cotton Conference, many Asian buyers expressed the desire to buy cotton directly from Uzbekistan, bypassing the traditional intermediaries. Thus far, foreign buyers have purchased approximately 600,000 tons of the one million tons of ginned cotton available in 2007. The total revenue expected is around USD 1.55 billion, approximately 16 percent of Uzbekistan's 2006 GDP. Uzbekistan is among the world's top five cotton exporters and top ten producers; 2007 is considered an average to above average year for production.

¶6. (SBU) Converting the cotton sector from an overall exporter of ginned cotton to a value-added cotton industry has been a goal of the GOU for many years. The process is moving slowly, as the GOU relies on foreign investors to implement the conversion. The GOU aims to eventually process 50 percent and export 50 percent of all cotton grown in Uzbekistan. Currently, 30 percent is processed. Post estimates eighty spinning mills must be built for the goal to be met.

Comment

¶7. (SBU) The Uzbek economy and government revenue are heavily
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dependent on the agricultural sector, in particular cotton exports. The majority of Uzbek cotton is hand-planted and hand-picked by a poorly-paid and educated labor force. Nearly half the Uzbek working population is engaged in agriculture; during the cotton harvest students are taken out of school to augment the labor force. Conversion to a value-added cotton industry would improve the standard of living in the agricultural sector.

¶8. (C) There are three main factors working against this transition. Internationally, investors are wary of Uzbekistan's poor investment climate and its lack of transparency. Domestically, the government is unwilling to finance new spinning mills from its own overflowing coffers. This industry is less labor intensive than the current cotton growing regime: at least now the farmers are all under-employed instead of unemployed. The third factor is that groups of the powerful elite, which control much of the cotton exports, wish to retain this source of income that is easily deposited into foreign bank accounts. Combined, these factors result in a government reticent to end current labor practices, including annual enlistment of students. Uneducated farm laborers remain tied to an inefficient labor-intensive industry, for better or worse, as employment options in Uzbekistan are minimal.

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